



# Robin J. Vos

State Representative • 63<sup>rd</sup> Assembly District • Racine County

## Assembly Bill 457

**DOR calculations of TID # 4 in the Village of Union Grove**

**State Representative Robin Vos**

**July 17, 2007**

Dear Chairman Gottlieb and members of the Assembly Urban and Local Affairs Committee:

Thank you for holding such a timely hearing on Assembly Bill 457 relating to how the Department of Revenue (DOR) makes certain calculations regarding tax incremental financing district number four (TID #4) in the Village of Union Grove.

As you know, state law allows for a tax incremental financing program that allows a city or village to create a tax incremental district (TID) within its boundaries to foster economic development. However, at least 50% of the TID must be blighted, in need of rehabilitation or conservation, or be suitable for industrial or mixed-use development. Once a TID has been created the DOR determines the value of the taxable property within the TID at the time of its creation. As development of the property within the TID increases its value, any taxes collected in excess of the base (tax increment) is collected and put into a special fund to pay back the project costs of the TID (i.e. sewer and street development, financing costs, site preparation costs, and professional service costs).

However, before a TID can be created, several steps and plans are required including public hearings, approval by the common council or village board and adoption of a resolution by the common council or village board that creates the TID as of a date provided in a resolution. State law also requires a limit on the value of property that may be included in a municipality's TID. The law states that the equalized value of taxable property of the district plus the value of the tax increment of all existing TIDs within the municipality does not exceed 12% of the total equalized value of all the taxable property within the municipality. The requirement is known as the "12% test".

In February, 2006 the Village of Union Grove adopted a resolution creating TID #4. The equalized values reported on August 15, 2005 were the latest equalized value figures reported prior to adoption of that resolution. The Village Board made its findings with respect to the 12% test based on those valuations and the 12% test was met based on those valuation numbers. The Village then submitted the information required to certify TID #4 to the DOR in late 2006. When calculating the 12% test for the Village of Union Grove's TID #4, DOR used the 2005 equalized values to determine the total equalized value of all taxable property within the village, but used 2006 equalized values of the parcels of property included in TID #4 to determine the value of the property included in TID #4. When the 2006 equalized values within TID #4 are compared to the 2005 total equalized value of the village, the 12% test is no longer met and as a result the DOR has not certified TID #4.

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Upon discussions with the DOR to assist the Village of Union Grove in getting TID #4 approved, I was informed that the Village could redraw their TID lines and resubmit them to the DOR in order to meet the 12% test or seek a statutory exception. A redraw of TID #4 is not an option for the Village at this time because of project expenses already incurred that may not be acceptable under a new TID. Thus, I have introduced Assembly Bill 457 which in spite of the 12% test would direct DOR to proceed with the approval of TID #4 in the Village of Union Grove. Thus the legislation would allow TID #4 to get back on track, be established as intended, and allow the development to occur as planned.

It is my understanding that this language is very parallel to other such exemptions in current law including some that were just enacted this year for Edgar and Altoona (Wisconsin Acts 2 and 10).

If you have any questions about AB 457 I would be happy to answer them.



# State of Wisconsin • DEPARTMENT OF REVENUE

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## Assembly Ways and Means Committee Hearing, July 17, 2007

### **AB 457 – Union Grove TIF (Rep. Vos)**

#### *Description of Current Law and Proposed Change*

Tax Incremental Finance (TIF) is a financing tool available under current law to cities, villages, and, to a limited extent, towns to encourage economic development that would not occur without some public assistance. When a TIF district is created, the current property value in the district is set as the "base value." Improvements and development that occur after the TIF district is created lead to increases in its value over the base value (the increase is referred to as the increment value). The property taxes levied by all local taxing jurisdictions (i.e. the municipality, county, school district, technical college and any special districts) on the value increment are used to pay for the project costs needed for the development to occur. The tax on the base value continues to go to the taxing jurisdictions that levy the tax. After a TIF district terminates, the taxes paid by property owners within the district – on both the base value and value increments – are shared by all taxing jurisdictions.

Under current law, a city or village must follow certain procedures within certain time frames to create a TIF, including holding public hearings, obtaining approval of a proposed plan by the local legislative body, and adoption of a resolution creating the TIF district as of a certain date. There is no limit on the number of TIF districts that a municipality may create. However, under current law, a city or village can create a new district only if it satisfies a 12% capacity test. Under the test, the property value of the proposed district plus the increment value of all existing districts may not exceed 12% of the total property value of the municipality.

The Village of Union Grove attempted to create TIF district number 4 on February 27, 2006, but failed to meet the 12% capacity test. This bill specifies that, notwithstanding the requirements of the 12% capacity test, the Department would be required to treat the TIF district as having met the 12% test for 2006, but could not certify increment value before 2008.

#### *Fairness/Tax Equity*

- Special legislation has been used in the past with other municipalities to remedy procedural errors. The bill creates the first exception to the 12% test in the creation of a TIF district.

#### *Impact on Economic Development*

- Tax incremental finance is a tool available to cities and villages to encourage economic development that would not occur without some public assistance. The bill would allow the Village of Union Grove's development efforts to proceed through a TIF district with future value increments consistent with its intent.

*Administrative Impact/Fiscal Effect*

- Special exceptions complicate the statutes by providing provisions that apply only to one municipality.
- The bill would increase Department administrative costs associated with amending and monitoring the TIF district. The Department anticipates being able to absorb the costs.
- Information is not available at this time to determine the value increment that would occur over the life of the district. As such, an estimate of the tax base that would be unavailable to the overlying taxing jurisdictions during the life of the TIF district is not available.

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